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C O N F I D E N T I A L SECTION 01 OF 03 LA PAZ 002614

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TAGS: ECON PGOV PREL ENRG EPET EINV BL EFIN PINR
SUBJECT: BOLIVIA: GAS COMPANIES CAN WAIT MORALES OUT

Classified By: A/Ecopol Chief Brian Quigley for reasons 1.4 (b), (d).

Summary

¶1. (C) Headaches, frustrations, and uncertainty are constant for the private hydrocarbon companies that remain in Bolivia, but profits and potential are also a reality. As a result, the companies are generally taking a long-term perspective which assumes that the policies of the Morales administration are unsustainable and that their corporate headquarters currently have larger issues to chew on than Bolivia. The state hydrocarbon company (YPFB) continues to be a "black box" whose incompetence and politicized operations hamper the development of Bolivian resources. Shortages of diesel, liquefied petroleum gas (GLP), and even gasoline are now commonplace. The inability of the state run pipeline company (Transredes) to attract capital to expand the pipeline network seriously hampers any plans to expand production. The state now owns a majority share of Andina (which produces some thirty percent of Bolivian gas) and has contracted a YPFB affiliate to drill its first gas well since the nationalization. Announcements of joint ventures with Iran, Russia, and Venezuela are commonplace, but the reality is that the sector is stagnant. End summary.

Bolivian Hydrocarbons: Not a Top Agenda Item

¶2. (C) Bolivia is no longer a hydrocarbon frontier able to draw in large investments and quickly expand production. Three years of President Morales' rule has sucked the vitality out of the sector and the major players are now content to simply maintain production, stay engaged, and see if significant further investment eventually makes sense. Petrobras Bolivia President Claudio Castejon remarked that the policies currently in place simply can't last. As a result, companies have an 8-10 year outlook that looks beyond President Morales. While Petrobras still plans to invest around $1 billion with its partners over the next five years, there are no plans to expand the export pipeline and,

therefore, no plans to significantly increase the 30 million cubic meters of gas per day (Mm3/d) currently being piped to Brazil.

¶3. (C) Roberto Dominguez, the former Director of Andina and current Andina Relations Director for Repsol, echoed Castejon's sentiment when he said that, "Repsol has bigger problems than Bolivia." (Note: Repsol was the majority owner of Andina, but sold its controlling stake in the company following Andina's May nationalization. The Bolivian state now owns 51 percent of the company and has operational control. End note.) Therefore, while Repsol still plans to invest some $700 million to expand production in the Margarita field from 2 Mm3/d to 8 Mm3/d by 2010 (and then up to 14 Mm3/d by 2014 through additional exploration and the construction of a new processing plant), Dominguez acknowledges that it is not a priority of Repsol as a whole.

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YPFB: The Continuing Problem
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¶4. (C) Private companies and the Bolivian government are hoping to sign production contracts for each field by the end of the year. According to the General Manager of Vintage Petroleum, Jorge Martignoni, the largest stumbling block is the government's insistence on overestimating internal demand. While the domestic market is currently between 7 to 8 Mm3/d, the government estimates a rise to 27 Mm3/d; a ridiculously high sum according to Martignoni. Because of

the contractual requirement of the companies to supply domestic demand, they are unable to commit to external buyers (i.e. Argentina) if they must promise 27 Mm3/d for Bolivia; while the estimates may be unrealistic, it limits what companies can promise other markets and, thus, limits what investments they are willing to make (moreover, sales to the domestic market are unprofitable due to fixed prices).

¶5. (C) YPFB also continues to be non-transparent. It has now been more than a year since the company produced what used to be a very informative quarterly report. Following the obligation to turn over all production to YPFB for transport and sale, the companies are left to guess the exact amount of taxes taken and distributed to the regions. Martignoni says that Vintage estimates what YPFB owes it, submits the bill, and hopes; their hopes and payments do not always match. Currently, the CBH estimates that over $200 million is still owed to the private companies.

¶6. (C) Tales of corruption at the YPFB are also becoming more prevalent. One example illustrates both this corruption and the types of policies being pursued that enhance opportunities for corruption. As a response to the recurrent diesel shortages in Santa Cruz, the government issued a limit of 120 liters that could be purchased by an individual. Exceptions could be issued if a farmer could show that he owns a certain level of farm equipment. The result is that some farms are gaining the right to more diesel and selling it to others at a profit, or farmers simply go directly to the YPFB refinery, pay off the operator, and take all the diesel they need. While many in Santa Cruz think that the diesel shortages are a conspiracy against them, CBH General Manager Raul Kiefer is convinced that it is simple incompetence on the part of YPFB and an inability to manage what used to be a private system of hydrocarbon distribution. Shortages of all liquid hydrocarbons are now affecting all of Bolivia and periodic long lines at gas stations can be seen in La Paz.

¶7. (C) YPFB leadership continues to disrespect the private companies. Martignoni described how late one afternoon he and the general managers of Plusperfecto and Chaco were summoned for a morning meeting with YPFB President Santos Ramirez. After catching the night flight to La Paz (their

offices are in Santa Cruz), they were left sitting in the waiting room until 6:30 the following evening. The meeting lasted twenty minutes and revealed no new information. Kiefer further commented that the biggest problem with Ramirez is that he dedicates one day to hydrocarbons and three to politics (Note: Ramirez is a former MAS senate President and has himself been the target of corruption allegations. End note.)

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The Newest Member of the State: Andina
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¶8. (C) As mentioned, the hydrocarbon company Andina is now controlled by the Bolivian state (49 percent is owned by Repsol YPF). Dominguez, the Andina "watchdog" for Repsol, told us that state control over the company was now complete and 77 former Repsol employees are now employed directly by Andina. The company still enjoys technical know-how, for although the chief executive is from YPFB, 15 of the 16 top managers are former Repsol employees. That said, political influence is already clear. The first major act of the "new" company was to put out a drilling bid for the Vibora gas field. Not surprisingly the new drilling unit of YPFB (YPFB/SIPSA) won the contract (Dominguez shrugged his shoulders and would say no more). YPFB acquired a drill from the Venezuelan state company PDVSA on loan. Dominguez reported that they were so desperate to quickly get the drill that they rented a ship for $6 million for the sole purpose of bringing it to Bolivia. It will be manned by a Venezuelan

crew and will drill in an established field to a depth of only 2000 meters (wells in many of the larger fields measure between 4-5 thousand meters). Dominguez said that it will be a trial run for the new team and should be a cheap ($7 million) and easy first attempt.

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Markets, Pipelines, The Constitution, and Prices
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¶9. (C) Another inhibiting factor on sector development is that there is no secure market for additional gas. The government touts the contract with Argentina (and just announced an upcoming agreement with Paraguay and Uruguay), but the fact is that no pipeline exists (in either case) and Argentina has announced that plans to build the new pipeline to Bolivia have been drastically reduced in scale. Kiefer laments that YPFB and the Argentinean state company (ENARSA) continually make announcements that both know to be unworkable or simply false.

¶10. (C) Carlos Delius, the director of the hydrocarbon service company Kaiser, believes that the biggest problem facing the industry is Transredes. The pipelines for liquids are operating near capacity and as a highly leveraged state company, Transredes simply cannot get external credit to expand the lines. This bottleneck for the industry is preventing new production from coming on-line. Dominguez said that Repsol could easily increase production on its smaller northern fields by 3Mm3/d but there is no way to transport the resulting additional production of liquids.

¶11. (C) When asked about the new MAS constitution, which will likely be approved on January 25, company executives are sanguine. Dominguez questioned, "what else can they take from us?" Executives from Vintage and Petrobras also said that it wasn't really worth worrying about. The CBH's Keifer said that none of the companies are talking to the government about how to function under the new constitution.

¶12. (C) The recent sharp fall in the price of petroleum will eventually ripple through Bolivia. The export price of gas to Brazil and Argentina currently sits at between $8-10 per BPU. These prices have been a windfall to the Bolivian

state and to the companies. Martignoni of Vintage said that the company enjoyed its greatest profits ever (around $20 million in 2008, $11 million in 2007, and $6 million in 2006 with stable production levels throughout), despite a more punitive tax regime. Martignoni said that Vintage would break even with export prices at about $3.5 per BTU. The state's take has likely expanded in a similar fashion, but will be adjusting downward. The export price is determined on a rolling six month average of a basket of hydrocarbon products. Therefore, the sharp decrease in petroleum prices will not fully impact Bolivian export prices until March 2009 and the Bolivian state after that. The Bolivian government's 2009 budget is based on petroleum at $73 a barrel.

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Comment
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¶13. (C) The hydrocarbon sector in Bolivia is in the doldrums. While production is unlikely to fall (and may even see slight increases by 2010), no one is enthusiastic about the sector's potential. None of the trumpeted joint ventures with Russia, Iran, and Venezuela are amounting to much and both Russian and Iranian representatives have complained how difficult it is to do business with the Bolivians. The gas is there, but it will most likely be up to future governments to effectively capitalize on the nation's potential.

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